

TENNESSEE GENERAL ASSEMBLY  
FISCAL REVIEW COMMITTEE



FISCAL MEMORANDUM

SB 498 - HB 1327

April 23, 2019

**SUMMARY OF ORIGINAL BILL:** Authorizes leases, entered into between the City of Memphis and business owners which hold a license from the Alcoholic Beverage Commission (ABC), to include provisions to calculate rent on gross sales, either including or excluding liquor sales. Prohibits a city or county from denying the issuance or renewal of a permit upon the basis that the lease between the business and its municipal landlord includes a provision whereby gross sales, including or excluding alcohol sales, are considered in the determination of a percentage rent or other rent calculation provision.

Establishes that this legislation applies to the businesses whose premises are located and fronted on a historic street or right-of-way with such national historic landmark located in Memphis.

FISCAL IMPACT OF ORIGINAL BILL:

Other Fiscal Impact – The City of Memphis may recognize a recurring increase in rental revenue received from certain business lessees of municipal property located within the Beale Street Historic District. The extent and timing of any increase cannot be reasonably determined; however, any such impact to the City of Memphis is considered permissive.

**SUMMARY OF AMENDMENT (008712):** Adds language to the original bill such that the only substantive change: exempts businesses located within an easement area, granted to a municipality for commercial recreation and commercial recreation facilities from the Tennessee Valley Authority in the Fort Loudon Reservoir, from having to meet requirements with regards to food service, maintenance of a kitchen, or a dining room a prerequisite to the issuance of a liquor-by-the-drink permit and further authorizes such licensees to enter into leases with municipal landowners in which gross sales, which may include or exclude liquor sales, to be considered in the determination of a percentage rent or other rent calculation provision.

FISCAL IMPACT OF BILL WITH PROPOSED AMENDMENT:

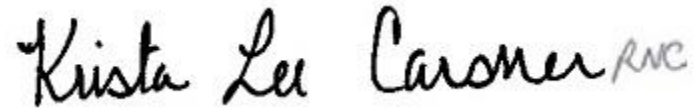
Other Fiscal Impact – The City of Memphis and the City of Loudon may recognize a recurring increase in rental revenue received from certain business lessees of municipal property located within the Beale Street Historic District, or the easement area located near the Fort Loudon Reservoir, respectively. The extent and timing of any increase cannot be reasonably determined; however, any such impact to the City of Memphis or the City of Loudon is considered permissive.

Assumptions for the bill as amended:

- The historic district referred to in this legislation is the Beale Street Historic District located in the City of Memphis.
- Under current law, it is assumed that the City of Memphis is a party to lease agreements (as lessor), with respect to municipal property owned by the city, with certain business owners (as lessees) which hold a license from the Alcoholic Beverage Commission (ABC), that currently have no rent provisions contingent upon gross sales, either including or excluding liquor sales.
- Passage of this legislation will provide authorization to the lessor (the City of Memphis) and lessees (businesses located in the Beale Street Historic District) to become parties to lease agreements that require rental payments to be contingent upon gross sales, either including or excluding liquor sales.
- The fiscal impact of this legislation is contingent upon the terms and provisions negotiated between the City of Memphis and these respective lessees. Depending on these specific terms and provisions, the City of Memphis could experience either an increase or decrease in rent payment revenue received from such respective lessees.
- The extent and timing of any change in rent revenue received by the City of Memphis from lessees cannot be specifically determined. However, any such impacts are considered permissive because the City of Memphis ultimately decides the terms and provisions which they are comfortable entering into with respect to any lease agreement.
- To the extent rent expenses increase for the respective business lessees, it is assumed that such lessees will increase prices for goods and services sold in an attempt to recapture any otherwise loss of profits. Therefore, any change in net income to such businesses is estimated to be not significant; and thus, any impact related to business taxes is estimated to be not significant.
- To the extent rent expenses decrease for the respective business lessees, it is assumed that such lessees will hold constant prices for goods and services sold and would see an increase in net income, which would result in additional business tax revenue. However, it is not expected that the City of Memphis would enter into any such lease agreements where the outcome would be a loss in rent revenue to the city such that net income for the lessee would increase. Therefore, any increase in net income to such business lessees is estimated to be not significant; and thus, any impact related to business taxes is estimated to be not significant.
- The exact location referenced as an “easement area” is not known for certain, but is assumed to be located within the municipal jurisdiction of the City of Loudon.
- It is assumed that the City of Loudon is seeking to act as a lessor, in a similar fashion as to what the City of Memphis will attempt and thus, will result in similar lease agreements.
- The number of alcoholic beverage licenses issued by the Alcoholic Beverage Commission (ABC) is not anticipated to change by any significant amount as the result of this legislation. As a result, any impact to the ABC and relative to alcohol tax collections is assumed to be not significant.

**CERTIFICATION:**

The information contained herein is true and correct to the best of my knowledge.

A handwritten signature in black ink that reads "Krista Lee Carsner" followed by a small, stylized "RNC" in the upper right corner.

Krista Lee Carsner, Executive Director

/jdb